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Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

4 August 1983

Overview of the Syrian Economy

Summary

The Syrian economy continues to limp along even though chronic foreign exchange shortages and poor economic management hamper the performance of the predominantly state-controlled industrial and agricultural sectors. Damascus is heavily dependent on foreign assistance from other Arabs, Iran, and the USSR. Despite periodic government crackdowns, black market activities and smuggling sustain the small private sector and [redacted] the old-line bourgeoisie [redacted]. At the same time, a substantial middle class manages to maintain fairly decent standards of living by relying on undeclared remittances from relatives abroad and the trickle-down benefits of high levels of government spending. [redacted]

A Dependent Economy

The Syrian economy is dependent on a narrow range of exports, foreign aid, and worker remittances to cover foreign exchange requirements. Petroleum and phosphates comprise nearly 70 percent of Syria's merchandise exports. Earnings from these two commodities fell from about \$1.3 billion in 1981 to just over \$1.0 billion last year. Syria's oil exports, of course, were

This memorandum was prepared by [redacted]

[redacted] Arab-Israeli Division, Office of Near Eastern and South Asian Analysis, at the request of the Special Assistant for National Security at the Department of Treasury. Information as of 4 August 1983 was used in preparation of this paper. Comments and queries are welcome and should be addressed to Chief, Arab-Israeli Division [redacted]

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hard hit by the fall in oil prices. Phosphate prices, in the meantime, have fallen over 20 percent since 1981. Other exports, mainly cotton and textile products, have not been able to offset these declines. [REDACTED] 25X1

Foreign exchange revenues derived from Arab aid and worker remittances are almost as large as Syria's earnings from its merchandise exports. Arab aid has run roughly \$2 billion annually since 1978 as a result of commitments made at the Arab Summit in Baghdad in 1978 and ad hoc payments made to Damascus, primarily from Saudi Arabia; last year, for example, the Arab states provided about \$800 million in extraordinary funds as compensation for Syria's losses during the Israeli invasion. Declared remittances from Syrians working abroad, primarily in the Gulf states, are almost \$600 million while undeclared, smuggled-in transfers probably are also substantial. [REDACTED] 25X1

Both aid and remittance levels are likely to be somewhat lower this year as a result of economic conditions in the Gulf. Aid payments will probably slip to \$1.2 billion apart from any ad hoc payments from the Saudis who have contributed \$300 million above their commitments this year. [REDACTED] 25X1

Damascus also derives substantial earnings--about \$100 million annually--from goods transiting Syria from its own ports, Turkey, and Lebanon to the Gulf States. Revenues would be higher were it not for Assad's decision to close the Iraqi oil export pipeline in 1982. Transit fees have also been adversely affected by the chaos in Lebanon. [REDACTED] 25X1

Dependence on Key Suppliers

On the import side, the Soviet Union was Syria's most important supplier in the last year. We estimate that Syria has received over \$2 billion in Soviet military equipment since the Israeli invasion last summer. While the two SA-5 systems made up an important segment of these deliveries, armored personnel carriers, jets, trucks, and other missile and radar systems comprise the bulk of the deliveries. [REDACTED] 25X1

Iran supplies strategically important petroleum--some is used to augment Syria's high sulfur crude and some is re-exported--under a favorable payment scheme. The 1983 agreement--for 120,000 b/d--provides for part of the oil to be sold to Syria at a price below the Iranian-benchmark, part to be bartered for Syrian products, and the remainder given as a grant. We estimate that a similar 1982 agreement afforded Damascus the equivalent of roughly \$1 billion in foreign exchange. Syria has been consistently behind on its payments to Iran, and most of the 1982 arrearages were reportedly written off by Tehran earlier this year. [REDACTED] 25X1

OECD countries provide most of Syria's other important supplies. These are paid for through commercial lines of credit

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offered by major US (Bankers Trust, Chase Manhattan, Morgan Guaranty, Citibank, Irving Trust), European, and Arab banks. Western countries--particularly West Germany and Italy--normally sell Syria about \$1 billion worth of industrial machinery and equipment. Currently, Western Bankers estimate that Syria is about \$300-400 million in arrears on payments to its commercial creditors. [redacted]

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Financial Safety Nets

Despite its chronically severe foreign exchange shortages--we estimate that reserves currently are below \$100 million--the Syrian financial picture is not all bleak. [redacted]

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Other advantages that Assad enjoys include:

- Syria's published foreign debt is relatively low--about \$3.3 billion at the end of 1982; non-military service payments are probably about \$650 million or a little over 20 percent of merchandise export earnings--acceptable by third world standards.
- The new military acquisitions probably have been provided by the Soviets at concessional terms with no established payment schedules.
- As long as Assad keeps the Iraqi pipeline closed, Iran will continue to provide oil under concessional arrangements. [redacted]

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Domestically, income from foreign relatives and the country's thriving black market continue to mitigate the impact of economic problems on the average Syrian and temper pressures on the government for economic policy changes. Moreover, the middle classes have been so cowed [redacted] that moderate economic hardships seem a small price to pay for tranquillity. [redacted]

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